

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 EUR-25 EA-11 ISO-00 CIAE-00 DODE-00

PM-07 H-03 INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01

PRS-01 SP-03 SS-20 USIA-15 FEA-02 AEC-11 AID-20

CEA-02 CIEP-02 COME-00 FPC-01 INT-08 OMB-01 SAM-01

SCI-06 STR-08 TRSE-00 FRB-03 GSA-02 DRC-01 /207 W

----- 118352

R 150805Z JUL 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 3336

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRIDGETOWN

EC BRUSSELS 164

AMEMBASSY CARACAS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY OTTAWA

AMEMBASSY PARIS

OECD PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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EO 11652: GDS

TAGS: EMIN EFIN EIND US ID

SUBJ: ASSESSMENT OF INVESTMENT, TAXATION, AND
EXPROPRIATION TRENDS IN THE ALUMINUM/BAUXITE
INDUSTRY

REF: A. STATE 145450 B. JAKARTA A-118

1. INDONESIA IS IN NO POSITION AT PRESENT TO TAKE A
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DECISIVE STEP IN SUPPORT OF INTERNATIONAL BAUXITE ASSOCIATION

(IBA) WHICH WOULD MENACE MULTI-HUNDRED-MILLION-DOLLAR ALCOA
MINING AND ALUMINA-REFINING PROJECTS COMING UP FOR DISCUSSION IN
NOVEMBER. LONGER-TERM GOI ATTITUDE TOWARD FOREIGN
BAUXITE PRODUCERS (MEANING ALCOA) ESSENTIALLY PART OF
ATTITUDE TOWARD ALL FOREIGN MINING COMPANIES AND LIKELY
TO BE INFLUENCED ONLY MARGINALLY BY OTHER BAUXITE
PRODUCING COUNTRIES. POLICY BACKGROUND PROVIDED
REFERENCE B.

2. COMMENT ON SUBJECTS RAISED PARA 2 REF A FOLLOWS:

A. BAUXITE EXTRACTION AND REFINING PLANS KNOWN TO
EMBASSY (ONE NEW MINING/REFINING PROJECT BY ALCOA;
ONE EXISTING STATE-OWNED MINE TO BEGIN REFINING)
REPORTED REF B. NEWS FROM JAMAICA, WHILE DISTURBING,
HAS NOT ALTERED ALCOA'S DETERMINATION TO PROCEED.
PLANS ARE BASED ON EXPANDING GENERALIZED WORLD MARKET
FOR ALUMINA RATHER THAN LINKED WITH SPECIFIC MARKET.
AMONG SELLING PROSPECTS ARE INDONESIA'S OWN PROJECTED
ALUMINUM SMELTER AT ASAHLAN, FOR ABOUT HALF OF OUTPUT;
JAPAN; AND PERHAPS THE US. IN ACCORDANCE WITH CURRENT
GOI POLICY THINKING, STATE ENTERPRISE ANEKA TAMBANG
LIKELY TO RETAIN CONTROL OF ANY NEW BAUXITE MINING
VENTURES IN INDONESIA.

B. GOI'S ATTITUDE HAS NOT BEEN FULLY TESTED AND
PROBABLY WILL NOT BE BEFORE NOVEMBER, WHEN ALCOA FORMAL
DECLARATION OF INTENT IS DUE. AVAILABLE INDICATIONS
ARE THAT GOI VERY MUCH WELCOMES ALCOA DECISION.

C. NOTWITHSTANDING IMPRESSION CONVEYED BY LOCAL
PRESS, BELIEVE GOI HAS TAKEN RESERVED ATTITUDE TOWARD
IBA INITIATIVES. ONLY IBA-GOI CONTRACT WE KNOW OF IS
APPROACH BY GUINEAN AMBASSADOR LAST APRIL WHICH
GOI COUNTERED BY ASKING TO BECOME AN OBSERVER IN
IBA. GOI INTERESTS DIFFER FROM THOSE OF SOME OTHER
PRODUCERS IN THAT (I) INDONESIA'S SOLE BAUXITE
PRODUCER AT PRESENT IS GOVERNMENT CORPORATION. (II)
INDONESIA'S FUTURE AS BAUXITE PRODUCER IS OVERSHADOWED
BY PROSPECTS OF BECOMING ALUMINA AND ALUMINUM PRODUCER.

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(III) INDONESIA IS NOT DEPENDENT ON BAUXITE FOR MAJOR
SHARE OF EXPORT EARNINGS: ANY ACTION THAT MIGHT IN
FUTURE BE TAKEN AGAINST FOREIGN BAUXITE PRODUCERS (IE
ALCOA) WOULD BE EVALUATED IN TERMS OF IMPACT ON OTHER
FOREIGN INVESTORS. EVEN THOUGH GOI CONCERN ABOUT
INVESTMENT CLIMATE IS PROBABLY DECLINING AS SUBSTANTIALLY-
INCREASED OIL REVENUES SWELL GNP AND STATE REVENUES,
GOI RETAINS DESIRE FOR FOREIGN PRESENCE IN LARGESCALE,

HIGHLY-TECHNICAL VENTURES. BELIEVE GOI WILL RESIST JOINING
IN COLLECTIVIST APPROACH WITH OTHER BAUXITE PRODUCERS EVEN THOUGH
INDONESIA WILL EXPLOIT ANY SUCCESS IBA MAY HAVE IN
RAISING BAUXITE/ALUMINUM PRICES AND KEEPING UP THE
PRESSURE ON GIANT MINING COMPANIES ALL OVER THE WORLD.

D. WHILE INFLUENCE OF OTHER BAUXITE PRODUCERS
PROBABLY MARGINAL THERE ARE INDISPUTABLY FORCES AT
WORK WHICH FAVOR INCREASED TAX PRESSURES ON FOREIGN
CORPORATIONS, AND EARLIER AND HEAVIER INDONESIAN EQUITY
PARTICIPATION THAN IN THE PAST (REF B). IN THIS LIGHT
IT QUITE CONCEIVABLE GOI MAY PRESS FOR ROYALTIES AND
EQUITY PARTICIPATION HIGHER THAN THOSE FOR WHICH
CONTRACT OF WORK PROVIDES, WHEN TIME COMES IN NOVEMBER
FOR TALKING ABOUT PROPOSED ALCOA MINING/REFINING VENTURE. WE
HAVE NO REASON TO EXPECT GOI TO MAKE A SPECIAL CASE
OF BAUXITE, HOWEVER, GOI'S OWN INTERESTS (SUBPARAGRAPH
2C) CONSISTENT WITH RESPECTING CONDITIONS EXISTING CON-
TRACTS OF WORK--INCLUDING NOTABLY ALCOA'S---EVEN THOUGH
WE HAVE SEEN SELECTIVE GOI QUESTIONING OF
THEIR TERMS PROMPTED BY SHOW OF SPECTACULAR EARNINGS.
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